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POWER XINCHEN

新 晨 動 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board of directors (the “**Board**”) of Xinchen China Power Holdings Limited (the “**Company**”) announces the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	<i>NOTES</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Revenue	3	2,652,446	2,586,193
Cost of sales		(2,122,096)	(2,075,435)
Gross profit		530,350	510,758
Other income and gain	4	44,133	38,379
Selling and distribution expenses		(64,420)	(71,809)
Administrative expenses		(117,913)	(83,371)
Finance costs	5	(43,591)	(21,362)
Other expenses and losses		(30,849)	(48,328)
Share of result of a joint venture		(694)	(182)
Profit before tax		317,016	324,085
Income tax expense	6	(45,470)	(53,336)
Profit and total comprehensive income for the year attributable to owners of the Company	7	271,546	270,749
Earnings per share – Basic (<i>RMB</i>)	9	0.211	0.222

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	<i>NOTES</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		951,903	349,872
Prepaid lease payments		96,619	59,441
Investment properties		233,381	–
Intangible assets		284,998	177,636
Interest in a joint venture		49,306	49,259
Deferred tax assets		6,923	151
Deposits for acquisition of property, plant and equipment and prepaid lease payments		–	26,693
		1,623,130	663,052
CURRENT ASSETS			
Inventories		572,247	385,051
Prepaid lease payments		2,308	1,434
Trade and other receivables	<i>10</i>	767,387	896,220
Amounts due from related companies	<i>11</i>	970,239	1,113,544
Loan to a shareholder		29,237	31,426
Pledged/restricted bank deposits		424,307	190,996
Bank balances and cash		353,947	1,166,366
		3,119,672	3,785,037
CURRENT LIABILITIES			
Trade and other payables	<i>12</i>	1,377,719	1,750,005
Amounts due to related companies		268,743	94,125
Bank borrowings due within one year	<i>13</i>	220,500	343,450
Income tax payables		5,518	40,941
		1,872,480	2,228,521
NET CURRENT ASSETS		1,247,192	1,556,516
TOTAL ASSETS LESS CURRENT LIABILITIES		2,870,322	2,219,568
NON-CURRENT LIABILITIES			
Bank borrowings due after one year	<i>13</i>	367,140	–
Deferred income		42,889	39,140
		410,029	39,140
NET ASSETS		2,460,293	2,180,428
CAPITAL AND RESERVES			
Share capital	<i>14</i>	10,500	10,500
Reserves		2,449,793	2,169,928
TOTAL EQUITY		2,460,293	2,180,428

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on 10 March 2012. Brilliance China Automotive Holdings Limited (“Brilliance China”, Brilliance China and its subsidiaries collectively referred to as “Brilliance China Group”), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and Sichuan Province Yibin Wuliangye Group Co., Ltd.* 四川省宜賓五糧液集團有限公司 (“Wuliangye”, Wuliangye and its subsidiaries collectively referred to as “Wuliangye Group”), a state owned enterprises registered in the People's Republic of China (the “PRC”), are able to exercise significant influence over the Company. In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange. The addresses of the registered office and the principal place of business of the Company are disclosed in corporate information section of the annual report.

The principal activities of the Company and Southern State Investment Limited (南邦投資有限公司) (“Southern State”) are investment holding. The principal activity of Mianyang Xincheng Engine Co., Limited* (綿陽新晨動力機械有限公司) (“Mianyang Xincheng”) is the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of passenger vehicles in the PRC.

The consolidated financial statements are presented in Renminbi (“RMB”), which is same as the functional currency of the Company and its subsidiaries.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the consolidated financial statements, the Group has adopted the Hong Kong Accounting Standards (“HKASs”), Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and interpretations for the first time in this year, which are mandatorily effective for the accounting period beginning on 1 January 2014.

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s consolidated financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early adopted the following new standards, amendments and interpretations that have been issued by the Hong Kong Institute of Certified Public Accountants but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵
Amendments to HKAS 1	Disclosure Initiative ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁵
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle ⁶
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle ⁵
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ⁵
Amendments to HKAS 27	Equity Method in Separate Financial Statements ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ⁵

- ¹ Effective for annual periods beginning on or after 1 January 2018
- ² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
- ³ Effective for annual periods beginning on or after 1 January 2017
- ⁴ Effective for annual periods beginning on or after 1 July 2014
- ⁵ Effective for annual periods beginning on or after 1 January 2016
- ⁶ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

Other than HKFRS15, the directors of the Company anticipate that the application of other new and revised standards, amendments and interpretations will have no material impact on the Group.

3. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors of the Company (the “Board”), being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided.

Segment revenue and segment results

The Board reviews operating results and financial information on a product by product basis. Each individual engine product constitutes an operating segment. For certain operating segments that exhibit similar long-term financial performance as they have similar economic characteristics, are produced by using similar production processes and are distributed and sold to similar classes of customers, their segment information is aggregated into a single reportable operating segment. The Group has three reportable operating segments as follows:

- (1) Gasoline engines;
- (2) Diesel engines; and
- (3) Engine components and service income.

The following is an analysis of the Group’s revenue and results by reportable segment:

For the year ended 31 December 2014

	Gasoline engines <i>RMB'000</i>	Diesel engines <i>RMB'000</i>	Engine components and service income <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue – external	<u>1,950,290</u>	<u>423,311</u>	<u>278,845</u>	<u>2,652,446</u>
Segment results	<u>321,620</u>	<u>75,120</u>	<u>133,610</u>	530,350
Unallocated income				44,133
Unallocated expenses				
Selling and distribution expenses				(64,420)
Administrative expenses				(117,913)
Finance costs				(43,591)
Other expenses and losses				(30,849)
Share of result of a joint venture				<u>(694)</u>
Profit before tax				<u>317,016</u>

For the year ended 31 December 2013

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Total RMB'000
Segment revenue – external	<u>2,104,667</u>	<u>388,703</u>	<u>92,823</u>	<u>2,586,193</u>
Segment results	<u>362,426</u>	<u>84,400</u>	<u>63,932</u>	510,758
Unallocated income				38,379
Unallocated expenses				
Selling and distribution expenses				(71,809)
Administrative expenses				(83,371)
Finance costs				(21,362)
Other expenses and losses				(48,328)
Share of result of a joint venture				<u>(182)</u>
Profit before tax				<u>324,085</u>

Other segment information included in the measurement of segment results:

	Gasoline engines RMB'000	Diesel engines RMB'000	Engine components and service income RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended					
31 December 2014					
Depreciation and amortisation	40,867	8,800	–	14,009	63,676
Provision of inventories	647	209	–	–	856
For the year ended 31					
December 2013					
Depreciation and amortisation	16,968	3,069	–	8,070	28,107
Provision of inventories	397	73	–	–	470

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, other income and gain/expenses and losses and share of result of a joint venture. This is the measure reported to the Board for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The assets and liabilities of the Group are regularly reviewed by the Board as a whole and no discrete financial information on segment assets and segment liabilities is available, therefore the measure of total assets and total liabilities by reportable operating segment is not presented.

Geographical information

All of the Group's operations and non-current assets are located in the PRC; and all of the Group's revenue from external customers is generated in the PRC, which is the country of domicile of Mianyang Xincheng.

Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's total revenue are sales of engines to certain related parties as disclosed.

4. OTHER INCOME AND GAIN

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Bank interest income	9,852	10,882
Government grants	25,501	21,144
Gain on disposal of property, plant and equipment	63	47
Rental income under operating lease, net outgoing expenses	7,868	–
Others	849	6,306
	<u>44,133</u>	<u>38,379</u>

5. FINANCE COSTS

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Interest on borrowings wholly repayable within five years:		
Bank loans	28,684	13,953
Discounted bills	20,174	10,028
	<u>48,858</u>	23,981
Less: amounts capitalised	<u>(5,267)</u>	<u>(2,619)</u>
	<u>43,591</u>	<u>21,362</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.4% (2013: 5.9%) per annum to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
PRC Enterprise Income Tax		
Current tax	53,376	52,354
(Overprovision) underprovision in prior year	<u>(1,134)</u>	<u>581</u>
	52,242	52,935
Deferred tax	<u>(6,772)</u>	<u>401</u>
	<u>45,470</u>	<u>53,336</u>

Mianyang Xincheng enjoyed preferential enterprise income tax rates which were lower than the standard tax rate during both years as approved by the relevant tax authorities in the PRC.

According to announcement of the State Administration of Taxation on issues concerning Enterprise Income Tax Related with enhancing the Western Region Development Strategy, Mianyang Xincheng was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2011 to 2020. Mianyang Xincheng has to be assessed by the tax authority every year and revised the approval document annually. Accordingly, Mianyang Xincheng was subject to 15% enterprise income tax rate for the year ended 31 December 2014 (2013: 15%).

No Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The Group is subject to PRC dividend withholding tax on the dividends paid by Mianyang Xincheng as it is a tax resident in the PRC but Southern State, the immediate holding company of Mianyang Xincheng, is a non-PRC tax resident. As a result, the Group will be subject to the PRC dividend withholding tax of 10% when and if undistributed earnings of Mianyang Xincheng are declared to be paid as dividends out of profits that arose on or after 1 January 2008. Deferred tax has not been provided for in the consolidated financial statements in respect of the tax effect of temporary differences attributable to accumulated undistributed earnings of Mianyang Xincheng as at 31 December 2014 arising since 1 January 2008 amounting to approximately RMB137,337,000 (2013: RMB108,175,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The directors of Mianyang Xincheng plan to set aside such undistributed profits of Mianyang Xincheng for investment purpose.

7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Directors' remuneration	8,299	7,646
Other staff costs	138,046	70,626
Contributions to retirement benefits scheme	18,841	9,399
	<hr/>	<hr/>
Total staff costs	165,186	87,671
	<hr/>	<hr/>
Share-based payment expenses	8,319	–
Depreciation of property, plant and equipment	50,999	24,272
Depreciation of investment properties	1,717	–
Amortisation of prepaid lease payments	2,708	1,441
Amortisation of intangible assets (included in cost of sales)	8,252	2,394
	<hr/>	<hr/>
Total depreciation and amortisation	63,676	28,107
	<hr/>	<hr/>
Research expenses (included in other expenses and losses)	23,847	17,051
Auditors' remuneration	1,082	821
Exchange (gain)loss, net	(2,100)	19,093
Allowance for doubtful debts	90	100
Included in cost of sales:		
Cost of inventories recognised as expense	2,122,096	2,075,435
Allowance for provision of inventories	856	470
Provision for warranty, net	10,741	11,344
Included in other expenses and losses:		
Initial public offering expenses	–	11,443
	<hr/> <hr/>	<hr/> <hr/>

8. DIVIDENDS

No dividend has been paid or declared by the Company during both years ended 31 December 2014 and 2013, nor has any dividend been proposed since the end of the reporting period.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company and weighted average number of shares of 1,287,407,794 (2013: 1,218,226,468) for the year ended 31 December 2014.

No diluted earnings per share is presented as there was no potential dilutive ordinary share outstanding during the year or as at the end of reporting periods.

10. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade receivables	241,347	407,870
<i>Less: Allowance for doubtful debts</i>	<u>(346)</u>	<u>(256)</u>
Trade receivables, net	241,001	407,614
Bills receivable	<u>333,475</u>	<u>421,009</u>
Total trade and bills receivables	574,476	828,623
Prepayments for purchase of raw materials and engine components	20,661	18,358
Other receivables*	<u>172,250</u>	<u>49,239</u>
	<u><u>767,387</u></u>	<u><u>896,220</u></u>

* *Included in the balance is value added tax recoverable of RMB146,552,000 (2013: RMB24,396,000).*

The Group generally allows a credit period of 30 to 60 days from the invoice date for trade receivables and a further 3 to 6 months for bills receivable to its external customers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 1 month	136,999	165,083
Over 1 month but within 2 months	47,042	57,615
Over 2 months but within 3 months	3,253	22,328
Over 3 months but within 6 months	18,772	146,954
Over 6 months but within 1 year	21,195	13,688
Over 1 year	<u>13,740</u>	<u>1,946</u>
	<u><u>241,001</u></u>	<u><u>407,614</u></u>

The following is an aged analysis of bills receivable presented based on the bills issue date at the end of the reporting period:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 3 months	160,155	327,096
Over 3 months but within 6 months	170,937	93,806
Over 6 months but within 1 year	<u>2,383</u>	<u>107</u>
	<u><u>333,475</u></u>	<u><u>421,009</u></u>

11. AMOUNTS DUE FROM RELATED COMPANIES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade receivables	778,904	839,510
Bills receivable	190,832	254,919
Prepayment	—	18,032
	<u>969,736</u>	<u>1,112,461</u>

Amounts due from related companies are unsecured, interest free and with a credit period of 3 months from the invoice date and a further 3 to 6 months for bills receivable. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 3 months	253,856	515,766
Over 3 months but within 6 months	197,155	286,187
Over 6 months but within 1 year	327,893	37,492
Over 1 year	—	65
	<u>778,904</u>	<u>839,510</u>

The following is an aged analysis of bills receivable presented based on the bills issue date at the end of the reporting period:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 3 months	155,507	154,149
Over 3 months but within 6 months	33,000	99,600
Over 6 months but within 1 year	2,325	1,170
	<u>190,832</u>	<u>254,919</u>

The Group's credit policy is that the credit is offered to related companies following financial assessment and an established payment record.

12. TRADE AND OTHER PAYABLES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade payables	383,155	427,786
Bills payable	<u>698,183</u>	<u>668,316</u>
Total trade and bills payables	1,081,338	1,096,102
Accrued purchase of raw materials	165,873	538,393
Construction payables	22,333	9,842
Payroll and welfare payables	42,271	34,487
Advances from customers	13,355	9,437
Provision for warranty (<i>Note</i>)	3,670	5,084
Retention money	42,013	41,033
Other payables	<u>6,866</u>	<u>15,627</u>
	<u>1,377,719</u>	<u>1,750,005</u>

The credit period of trade payables and bills payable is normally within 3 months and 3 to 6 months, respectively. The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 3 months	146,827	324,699
Over 3 months but within 6 months	210,380	85,793
Over 6 months but within 1 year	15,378	6,134
Over 1 year but within 2 year	<u>10,570</u>	<u>11,160</u>
	<u>383,155</u>	<u>427,786</u>

The following is an aged analysis of bills payable, presented based on bills issue date at the end of each reporting period:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 3 months	301,719	296,284
Over 3 months but within 6 months	325,281	372,032
Over 6 months but within 1 year	<u>71,183</u>	<u>–</u>
	<u>698,183</u>	<u>668,316</u>

Note:

The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted on the sale of automotive engines and automotive engine components, based on prior experience and industry average for defective products at the end of each reporting period.

13. BANK BORROWINGS

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Carrying amount repayable:		
Within one year	220,500	343,450
More than two years, but not more than five years	<u>367,140</u>	<u>–</u>
	587,640	343,450
<i>Less:</i> amounts shown under current liabilities	<u>(220,500)</u>	<u>(343,450)</u>
Amounts shown under non-current liabilities	<u>367,140</u>	<u>–</u>
Secured	405,640	131,450
Unsecured	<u>182,000</u>	<u>212,000</u>
	<u>587,640</u>	<u>343,450</u>

Other than RMB367,140,000 loan denominated in United State Dollars, i.e. US\$60,000,000, the remaining loans are all denominated in RMB.

14. SHARE CAPITAL

Details of movement of the share capital of the Company are as follows:

	Number of shares	Amount <i>HK\$</i>
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2013, 31 December 2013 and 2014	<u>8,000,000,000</u>	<u>80,000,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2012 and 31 December 2012	940,199,794	9,401,998
Issue of new shares on 12 March 2013 (i)	313,400,000	3,134,000
Issue of new shares on 9 April 2013 (ii)	<u>33,808,000</u>	<u>338,080</u>
At 31 December 2013, 1 January 2014 and 31 December 2014	<u>1,287,407,794</u>	<u>12,874,078</u>
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Share capital presented in consolidated statement of financial position	<u>10,500</u>	<u>10,500</u>

- (i) On 12 March 2013, 313,400,000 shares of HK\$0.01 each of the Company, amounting to HK\$3,134,000 (approximately RMB2,534,000), were issued at HK\$2.23 per share by way of public offering and the Company's shares have then listed on the Main Board of the Stock Exchange.
- (ii) On 9 April 2013, 33,808,000 shares of HK\$0.01 each of the Company, amounting to HK\$338,080 (approximately RMB273,000), were issued at HK\$2.23 per share under over-allotment arrangement under the public offering.

The new shares rank pari passu with the existing shares in all aspects.

15. RELATED PARTY DISCLOSURES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Sale of goods		
Brilliance China Group	743,473	372,645
Huachen Group ⁽¹⁾	682,984	763,982
Dongfeng JV ⁽²⁾	16,314	27,230
	<u>1,442,771</u>	<u>1,163,857</u>
Purchase of goods		
Brilliance China Group	320,598	48,764
Huachen Group	24,693	–
Wuliangye Group	183,172	184,572
	<u>528,463</u>	<u>233,336</u>
Purchase of productions line and inventories*		
Huachen Group	394,281	–
	<u>394,281</u>	<u>–</u>
* <i>RMB37,646,000 inventories inclusive.</i>		
Rental charged and auxiliary services		
Brilliance China Group	11,390	1,697
Huachen Group	12,037	17,966
Wuliangye Group	263	–
	<u>23,690</u>	<u>19,663</u>
Rental income		
Brilliance China Group	12,117	–
	<u>12,117</u>	<u>–</u>
Maintenance and construction cost charged		
Wuliangye Group	4,111	3,339
	<u>4,111</u>	<u>3,339</u>

Notes:

- (1) Huachen Automotive Group Holdings Company Limited (“Huachen”) and its subsidiaries collectively referred to as “Huachen Group”.
- (2) Changzhou Dongfeng Xinchun Engine Co., Ltd (“Dongfeng JV”).

16. EVENTS AFTER THE REPORTING PERIOD

On 21 January 2015, Mianyang Xinchun and BMW Brilliance Automotive Ltd. (“BMW Brilliance Automotive”) entered into an assets transfer agreement (the “Assets Transfer Agreement”) pursuant to which BMW Brilliance Automotive will transfer to Mianyang Xinchun the crankshaft production line, the supporting equipment and facilities, the related spare parts (the “Acquired Assets”) and related contracts in connection with the operation of the crankshaft production line (the “Transferred Contracts”) and the call option to BMW Brilliance Automotive (the Assets Transfer Agreement, the Acquired Assets and the Transferred Contracts have same meaning as defined in the circular of the Company dated 18 February 2015).

The consideration for the Acquired Assets is estimated to be approximately RMB391,428,337. The consideration under the Assets Transfer Agreement will be settled by internal resources and bank borrowings. Details of which are set out in the circular of the Company dated 18 February 2015.

BUSINESS REVIEW AND PROSPECT

Despite the demand for certain vehicles produced by the Group's customers decreased during the year, which in turn adversely affected the sale of engines of the Group, the Group has managed to achieve an increase of 2.6% in the total sales, from RMB2,586.19 million in 2013 to RMB2,652.45 million in 2014, and an increase of 0.3% in the net profit, from RMB270.75 million in 2013 to RMB271.55 million in 2014.

According to the China Association of Automobile Manufacturers, China's automobile industry continued to grow steadily in 2014. The luxury passenger vehicle segment continued to outperform other segments of the automobile industry in China. During the year, the Group successfully tapped into the luxury passenger vehicle segment and developed business relationship with BMW Brilliance Automotive. The Group started to supply connection rods and N20 engines to BMW Brilliance Automotive in 2014.

Premium engines and engine parts and components segments have become the primary focus of the Group's development. Through past collaboration with BMW Brilliance Automotive, the Group has achieved certain degree of technology advancement and improvement of management skills, which enable the Group to strengthen the costs control of its existing business and its overall competitiveness. Although the business of premium engines and engine parts and components is still under development, the Group believes that it will benefit from the continuous growth in luxury passenger vehicle segment and this business segment will increase its contribution to the Group's overall performance in the near future. As a qualified domestic engine and engine component supplier to BMW Brilliance Automotive and well versed with the BMW standards, the Group will explore possibilities to supply its existing and new products to both BMW Brilliance Automotive and BMW AG in the future.

During the year, the Group acquired a company which holds a premise located in Shenyang. The acquisition represented a good opportunity for the Group to strengthen its presence in Shenyang. Currently, certain portion of premise was leased to BMW Brilliance Automotive, which generates rental income for the Group for the time being. In long run, the premise would be an ideal location for the Group to build its own production base in Shenyang, where the manufacture bases of some of the Group's major customers, including BMW Brilliance Automotive, are located, in order to strengthen its business relationship with the customers and save operating costs.

The Group has been positioning itself as a core engine business unit for Huachen Group. During the year, the Group consolidated the engine production capacities owned by Huachen Group through acquisition and entrustment management arrangement, which eliminated the potential internal competition among different engine plants within Huachen Group, enriched the Group's product portfolio and enabled the Group to provide better quality services and products to its customers. In respect of the relocation of assets to new production site in Mianyang, the overall process is still underway.

In respect of the engines business with domestic branded automobile manufacturers, although this business segment has underperformed in the 2014, this segment still generated stable cashflow to support the Group's development in 2014. Going forward, the Group believes that the competitive operating environment for domestic branded automobile manufacturers may continue to adversely affect the Group's engine sales to the domestic branded auto manufacturers. The Group has been working towards strengthening its competitiveness and maintaining its market share in this segment. For instance, the Group has applied business control methodologies and technical knowhow learned from its business partners to streamline its internal structure, strengthen its internal control and upgrade its research and development capabilities.

The Group will work closely with its major customers so as to monitor the business needs of its major customers and develop new engine(s) in response to the market needs. The Group's international business partners are assisting the Group in formulating its engines development strategy. They have been helping the Group to develop a new engine platform. The Group is also exploring the possibilities of obtaining license to assemble new engine(s) for its existing and potential customers in order to optimize its product portfolio.

MANAGEMENT'S DISCUSSION & ANALYSIS

The Group achieved total consolidated sales of RMB2,652.45 million, representing an increase of 2.6% from RMB2,586.19 million in 2013. The increase was mainly due to the introduction of connection rods and N20 engines during the year, which partially offset the decrease in demand for the Group's small gasoline engines.

Sales volume of engines decreased approximately 15.1%, from around 275,700 units in 2013 to around 234,200 units in 2014, of which around 9,300 units of N20 engine were sold in 2014. The decrease was mainly due to decrease in the sales of small engines with displacement of 1.6L or less, being result of the decrease in demand for the products by one of the Group's major customers during the year.

In respect of the engines business segment, the Group recorded approximately 7.3% decrease in gasoline engines segment revenue, from approximately RMB2,104.67 million in 2013 to approximately RMB1,950.29 million in 2014. The decrease was mainly due to decrease in demand for the Group's small gasoline engine. The Group recorded approximately 8.9% increase in diesel engines segment revenue from approximately RMB388.70 million in 2013 to approximately RMB423.31 million in 2014. The increase was mainly due to increase in demand for the product launched by the Group in 2013.

In respect of the engine components and service income segment, the Group recorded approximately 200.4% increase in segment revenue, from approximately RMB92.82 million in 2013 to approximately RMB278.85 million in 2014. The increase was mainly due to the introduction of connection rods in 2014. The Group sold around 1,047,800 units of connection rods in 2014.

The consolidated cost of sales in 2014 amounted to RMB2,122.10 million, up by 2.2% when compared to RMB2,075.44 million recorded in the corresponding period last year. The increase in cost of sales was generally in line with the increase in the Group's total sales. Furthermore, the Group acquired certain property, plant and equipment during the year, which expanded the scale of the Group's operation and lead to a significant increase in depreciation costs in 2014 as compared to 2013.

The gross profit margin of the Group slightly increased from 19.7% in 2013 to 20.0% in 2014 mainly due to the introduction of connection rods in 2014.

Other income increased from RMB38.38 million in 2013 to RMB44.13 million in 2014, representing an increase of 15.0%. This is because the Group received rental income since August 2014 and no such income was recorded in 2013.

Selling and distribution expenses decreased by 10.3%, from RMB71.81 million in 2013 to RMB64.42 million in 2014, representing 2.8% and 2.4% of the revenue in 2013 and 2014, respectively. The decrease was mainly due to the scale down of the Group's promotion activities, which was offset by increase in staff costs resulting from increase in sales personnel headcounts and increase in transportation and packaging related expenses.

Administrative expenses increased by 41.4%, from RMB83.37 million in 2013 to RMB117.91 million in 2014, representing 3.2% and 4.4% of the revenue in 2013 and 2014, respectively. The increase was mainly due to increase in staff costs as a result of increase in headcounts to support the Group's daily operation and business development and office expenses.

Finance costs increased by 104.1%, from RMB21.36 million in 2013 to RMB43.59 million in 2014. The increase was mainly due to increase in use of discounted bills during the daily operation and increase in bank borrowing to finance the acquisition of assets in 2014.

Other expenses decreased by 36.2 % from RMB48.33 million in 2013 to RMB30.85 million in 2014. There was a decrease in other expenses because expenses relating to the initial public offering of the shares of the Company and a foreign exchange translation loss recognised in 2013, was not incurred and/or recognised in 2014.

The Group's profit before tax decreased by 2.2% from RMB324.09 million in 2013 to RMB317.02 million in 2014.

Income tax expenses decreased by 14.7% from RMB53.34 million in 2013 to RMB45.47 million in 2014, which was mainly due to reverse of overprovision of tax expenses in prior year and movement in deferred tax assets.

For the year 2014, the net income attributable to owners of the Company was approximately RMB271.55 million, representing a 0.3% increase from approximately RMB270.75 million in 2013. Basic earnings per share in 2014 amounted to approximately RMB0.211, compared to approximately RMB0.222 in 2013.

Liquidity and financial resources

As at 31 December 2014, the Group had RMB353.95 million in cash and cash equivalents (31 December 2013: RMB1,166.37 million), and RMB424.31 million in pledged/restricted bank deposits (31 December 2013: RMB191.00 million). The Group had trade and other payables in the amount of RMB1,377.72 million (31 December 2013: RMB1,750.01 million), bank borrowings due within one year in the amount of RMB220.50 million (31 December 2013: RMB343.45 million), and bank borrowings due after one year in the amount of RMB367.14 million (31 December 2013: nil).

Capital structure

As at 31 December 2014, the Group's total assets was RMB4,742.80 million (31 December 2013: RMB4,448.09 million), which was funded by the following: (1) share capital of RMB10.50 million (31 December 2013: RMB10.50 million), (2) reserves of RMB2,449.79 million (31 December 2013: RMB2,169.93 million) and (3) total liabilities of RMB2,282.51 million (31 December 2013: RMB2,267.66 million).

Contingent liabilities

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising cash. The Group considers that the risk of the default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable banks in the PRC.

Pledge of assets

As at 31 December 2014, the Group pledged certain of its land use rights, buildings, construction in progress, plant and machinery with an aggregate carrying value of approximately RMB172.86 million (31 December 2013: RMB183.82 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2014, the Group also pledged bank deposits in the amount of approximately RMB181.56 million (31 December 2013: RMB191.00 million) to certain banks to secure certain credit facilities granted to the Group.

Gearing ratio

As at 31 December 2014, the debt-to-equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 0.93 (31 December 2013: 1.04). The decrease in the debt-to-equity ratio was mainly due to increase of total equity resulted from an increase of profit attributable to equity holders of the Company and relatively stable total liabilities in 2014.

As at 31 December 2014, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 24% (31 December 2013: 16%). The increase in the gearing ratio was mainly due to the increase in total bank borrowing as a result of the finance of the acquisition of property, plant and equipment during the year with bank borrowings.

Investment properties

During the year, the Group acquired a company which holds a premise located in Shenyang. In 2014, certain portion of the aforesaid premise was leased to BMW Brilliance Automotive and a third party, which generates rental income of approximately RMB12.29 million for the year ended 31 December 2014.

New product

The Group started to supply connection rods and N20 engines to BMW Brilliance Automotive in 2014. Depending on market sentiment, the Group will consider introducing some new engine models and/or new parts and components to the market in the coming year.

Foreign exchange risks

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as United States Dollar and Hong Kong Dollar, the Group is exposed to foreign currency translation risk.

The Group has and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. There were no hedging transactions outstanding as at 31 December 2014.

Employees and remuneration policy

As at 31 December 2014, the Group employed approximately 1,697 employees (31 December 2013: approximately 1,080). Employee costs amounted to approximately RMB165.19 million for the year ended 31 December 2014 (31 December 2013: approximately RMB87.67 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

Significant investments

On 23 June 2014, the Group entered into an acquisition agreement in relation to the acquisition of entire equity interest in Xincheng Engine Shenyang Co., Ltd.* (新晨動力機械(瀋陽)有限公司) (previously known as CMT International Logistics Group Shenyang Co., Ltd.* (中床國際物流集團瀋陽有限公司)), which holds certain land and properties in Shenyang, the PRC. The directors of the Company considered that the acquisition represented a good opportunity for the Group to secure a parcel of land to strengthen its presence in Shenyang, where its major customers are located. As the manufacture bases of some of the Group's major customers are located at Shenyang and neighboring areas, the land and properties acquired would be used as one of the Group's manufacture and/or logistics bases, thereby reducing the Group's operating costs and enhancing the Group's profitability. The acquisition was completed on 15 August 2014.

On 24 June 2014, the Group entered into a supplemental sales and installation agreement, payment transfer agreement and assets transfer agreement for the purpose of acquiring a further connection rod production line to expand its production capacity of connection rods in response to the growing demand for connection rods. The acquisition was completed on 24 June 2014.

For further details of the abovementioned transactions, please refer to the announcements made by the Company dated 23 June 2014 and 24 June 2014, respectively.

Save as disclosed, there were no major acquisition and disposal of subsidiaries and associated companies undertaken by the Group during the year ended 31 December 2014.

Capital commitment

As at 31 December 2014, the Group had capital commitments of approximately RMB545.31 million (31 December 2013: RMB525.44 million), of which contracted capital commitments amounted to approximately RMB151.45 million (31 December 2013: RMB189.46 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

DIVIDEND

The Board of the Company did not recommend the payment of any dividend in respect of the year ended 31 December 2014 (2013: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held on Monday, 1 June 2015 at 9:00 a.m..

The Hong Kong branch register of members of the Company will be closed from Wednesday, 27 May 2015 to Monday, 1 June 2015, both dates inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Monday, 1 June 2015 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 26 May 2015.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities in 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The Company has complied with all code provisions of the CG Code throughout the year ended 31 December 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code for the year ended 31 December 2014.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the consolidated financial statements of the Group for the year ended 31 December 2014.

At present, the audit committee comprises Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive directors. Mr. Chi Guohua is the chairman of the audit committee.

PUBLICATION OF ANNUAL REPORT

The 2014 annual report of the Company containing the information required by the Listing Rules will be published on the websites of the Stock Exchange and the Company in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises two executive directors: Mr. Wu Xiao An (also known as Mr. Ng Siu On) (*Chairman*) and Mr. Wang Yunxian (*Chief Executive Officer*); two non-executive directors: Mr. Qi Yumin and Mr. Tang Qiao; and four independent non-executive directors: Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.

By Order of the Board
Xinchen China Power Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong, 25 March 2015

* *English name for reference only*